

Mary Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

March 10, 2004

RE: Western Massachusetts Electric Company, D.T.E. 03-34

Dear Secretary Cottrell:

On September 23, 2003, Western Massachusetts Electric Company ("WMECo" or "Company") submitted an amended reconciliation filing for the calendar year 2002 in response to the Department's directives in its last reconciliation order. *Western Massachusetts Electric Company*, D.T.E. 01-36/02-20 (2003). The Attorney General submitted the prefiled testimony of David Effron on January 6, 2004 and the Department conducted hearings on February 11, 2004. Pursuant to the procedural schedule established by the hearing officer, the Attorney General submits this letter as his initial brief.

In response to issues raised by the Attorney General during discovery, the Company made a number of voluntary corrections to its filing, resulting in a total \$136,000.00 increase in the 2002 over-recovery amount. Tr., p. 22-26. The only remaining issues to be addressed are the return of the over-recovery to customers and the compounding of carrying charges on the over-recovery.

I. Return Of The Over Recovery.

As of December 31, 2002, the Company's cumulative over-recovery balance of the transition charges was approximately \$28 million. WMECo proposed to apply this over-recovery against the transition costs by accelerating the amortization of non-securitized fixed costs, in other words, to offset the over-recovery against fixed costs remaining to be recovered as of December 31, 2002. Exh. WM-JRC, p. 8. The Company recommends that the over-recovery first be applied to the remaining Millstone Unit 2 fixed costs, \$7,090,000 as of December 31, 2002, and the remainder to the portion of the FAS 109 regulatory asset earning a return as of that date. See Exh. RR-003 (public and confidential exhibits).

The Attorney General has no objection to the application of the over-recovery against certain fixed costs. Since Millstone Unit 2 fixed costs earn a return and that portion of the FAS 109 regulatory asset earns a return at the overall weighed cost of capital, the Company's

proposal will appropriately reduce the total amounts to be recovered from customers.¹ See Exh. AG-1, p.11.

II. Calculation Of Carrying Charges On Transition Charge Over-Recovery.

In its filing, WMECo has failed to compound the carrying charges on the transition charge over-recovery. In determining the appropriate transition charge in this case the Department should treat the over-recovery of the transition amounts in the same manner as other transition charge balances and include the cumulative balance when calculating these carrying charges. As Mr. Effron explained in this prefiled testimony:

In calculating the annual amount of carrying charges, WMECO has not included the balance of carrying charges accrued in prior years. For example, in calculating the carrying charges in 2002, the Company did not include the carrying charges accrued in the years 1998 – 2001 in the balance on which the carrying charges are computed. As the carrying charges for a given year are a component of the total transition costs, the calculation of carrying charges in a given year should reflect the cumulative balance of carrying charges for prior years in the balance on which carrying charges are accrued. In other words, the carrying charges should be compounded annually.

Exh. AG-1, pp. 4-5. On cross-examination, the Company's witness, Mr. Cahoon acknowledged that the Company did not include the balance of carrying charges accrued in prior years in calculating the carrying charges in a given year, but did not offer any explanation of why it would be inappropriate to do so. He did not know whether it was the normal practice to include accumulated carrying charges from prior years in the base on which the carrying charges in a given year are calculated or whether that practice would be consistent with the method of calculating carrying charges used by other companies in Massachusetts. Tr., p. 30.

The Department has never explicitly addressed this issue in any of its orders on the Company's reconciliation of transition charges, nor did it make any finding in the past that the Company's method was appropriate. The Company has a \$24.8 million over-recovery in 2002 and an expected over-recovery of \$25 million in 2003, Tr., p. 43, and the Department should address the issue of including the balance of carrying charges accrued in prior years in the calculation of carrying charges in the reconciliation period. Since the carrying charges accrued in a given year are a component of the total transition costs, they should be treated the same as

¹ The Attorney General's position on the Company's proposal for applying the 2002 over-recovery in this proceeding should not be construed as a pre-approval of any specific method that the Company will propose to apply the over-recovery for 2003, now estimated to be in excess of \$25 million. The Attorney General believes that the method of applying the over-recovery for 2003 can best be addressed at the time of the Company's next reconciliation.

the other components of transition costs. To the extent the other components of transition costs are over or under- recovered, the Department takes into account the cumulative over or under-recovery balance in calculating the carrying charges in the reconciliation period. The carrying charges accrued in prior period should be treated no differently and should be included in the balance on which the Company calculates carrying charges.

In conclusion, the Department should adopt the recommendations made by the Attorney General as in the best interests of consumers.

Respectfully submitted,

Alexander J. Cochis
Assistant Attorney General

cc: Service list